

Message Text

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ACTION ARA-10

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 1632

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PLEASE PASS TREASURY

E. O. 11652: N/A

TAGS: EFIN, AR

SUBJECT: GOA ANNOUNCES NEW FINANCIAL AGREEMENT WITH FIRST
NATIONAL CITY BANK

REF: A. BUENOS AIRES 4149, B. STATE 119986 AND C. BUENOS AIRES 1755

1. JUNE 23, MINISTRY OF ECONOMY ANNOUNCED GOA AND FIRST NATIONAL CITY BANK RECENTLY SIGNED LETTER OF INTENT FOR EXTERNAL FINANCIAL PACKAGE TOTALING \$250 MILLION. REPORTEDLY, AGREEMENT ON A "BEST EFFORT" BASIS, I.E., BOTH PARTIES WILL MAKE BEST EFFORTS TO REALIZE TERMS. ACCORDING FNCB REP, AGREEMENT CONSISTS OF TWO OPERATIONS INCLUDING:

2. EXTERNAL BOND PURCHASES--FNCB AND OTHER PARTICIPATING BANKS WOULD PURCHASE (WITH FOREIGN EXCHANGE) UP TO MAXIMUM \$100 MILLION OF GOA EXTERNAL BONDS. FNCB REP SAYS BANKS WOULD SELL BONDS, WITH REPURCHASE AGREEMENT, INVESTING PESO PROCEEDS IN GOA DOMESTIC BONDS TO SUPPORT TREASURY. REPORTEDLY, FNCB OPERATED SIMILAR MECHANISM IN CHILE WITH SUCCESS.

3. SYDICATED PUBLIC SECTOR LOAN--FNCB WOULD HEAD SYNDICATE TO FINANCE PUBLIC SECTOR PROJECTS TOTALING \$150 MILLION. TERMS

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WOULD BE FIVE YEARS, TWO-YEAR GRACE, INTEREST BASED ON EURO-

DOLLAR RATES. REPORTEDLY, PRIORITY PROJECTS UNDER REVIEW ARE THOSE OF GAS DEL ESTADO, HIDRONOR AND YACIMIENTOS PETROLIFEROS FISCALES (YPF).

4. COMMENT: NOTHING HERE VERY NEW. NEGOTIATIONS WITH FNCB HAVE BEEN UNDERWAY FOR SOME TIME (BA 1755, MARCH 75). PUBLIC SIGNING LETTER OF INTENT DOES, HOWEVER, REPRESENT INCREASED COMMITMENT BOTH PARTIES TO ACHIEVE SUCCESSFUL OUTCOME. FNCB REMAINS OPTIMISTIC. GOA DECISION PUBLICIZE NEGOTIATIONS NOW REFLECTS DESIRE FACILITATE OTHER CAPITAL INFLOWS AND STRESS COOPERATION WITH FOREIGN CAPITAL.

5. FNCB NEGOTIATIONS ARE ONE PIECE IN FAR-REACHING GOA EFFORT OBTAIN INCREASED CAPITAL INFLOWS THIS YEAR. OTHER CURRENT FINANCING OPERATIONS WHICH WE KNOW OF INCLUDE: 1)RECENTLY TERMINATED AGREEMENT WITH AUTO SECTOR (REF A); 2) STRONG GOA CAMPAIGN TO ATTRACT "SWAP" FINANCING, WHICH NOW POPULAR DUE SIGNIFICANT INTEREST RATE DIFFERENTIAL HERE AND AROUND; AND 3) NEW YORK CHEMICAL BANK SHORT TERM REVOLVING CREDIT (REF B). (REPORTEDLY, CHEMICAL WOULD ADVANCE FOREIGN EXCHANGE TO CENTRAL BANK, ACCEPTING FORWARD GRAIN SALE CONTRACTS AS COLLATERAL.)

WE UNDERSTAND GOA MAY ALSO SEEK IMF CREDIT EITHER VIA USE OF FIRST TRANCHE OR OIL FUND FACILITY. ACTION REQUESTED: WOULD APPRECIATE ANY INFORMATION AVAILABLE WASHINGTON RE POSSIBLE ARGENTINE USE OF IMF FACILITIES.
MONTLLOR

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